

**Before The
Public Service Commission of South Carolina**

Docket No. 2007-4-G

**Annual Review of Purchased Gas Adjustment and
Gas Purchasing Policies of Piedmont Natural Gas Company, Inc.**

**Direct Testimony
Of
David R. Carpenter**

**On Behalf Of
Piedmont Natural Gas Company, Inc.**

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**Piedmont
Natural Gas
Company**

October 11, 2007

1 **Q. Please state your name and your business address.**

2 A. My name is David R. Carpenter. My business address is 4720 Piedmont Row
3 Drive, Charlotte, North Carolina.

4 **Q. By whom and in what capacity are you employed?**

5 A. I am employed by Piedmont Natural Gas Company, Inc., ("Piedmont" or the
6 "Company") as Managing Director Regulatory Affairs.

7 **Q. Please describe your educational and professional background.**

8 A. I received a B.S. degree from Furman University in 1977. In 1983, I
9 completed the requirements for and became a Certified Public Accountant in
10 North Carolina. In 1980, I was employed by Deloitte, Haskins and Sells as a
11 staff accountant, and I was promoted to senior assistant in 1981. I was
12 employed by Piedmont in 1982 as Supervisor of Property Records and in 1990
13 was promoted to Manager of Financial Reporting and Property Records. I
14 was promoted to Manager of Rate Administration in 1993 and in February
15 2003 was promoted to Director of Rates. I was promoted to my current
16 position in July, 2006.

17 **Q. Have you previously testified before this Commission or any other**
18 **regulatory authority?**

19 A. Yes. I have testified before the Public Service Commission of South Carolina,
20 the Tennessee Regulatory Authority and the North Carolina Utilities
21 Commission on a number of occasions.

22 **Q. Are you a member of any professional associations?**

1 A. Yes. I am a member of the American Institute of Certified Public
2 Accountants and the North Carolina Association of Certified Public
3 Accountants. I also serve on the Southern Gas Association's Rate Committee.

4 **Q. What is purpose of your testimony in this proceeding?**

5 A. The purpose of my testimony in this docket is to inform the Commission of
6 challenges and issues faced by Piedmont in the last several years with respect
7 to its gas cost accounting and how the Company is addressing these issues and
8 challenges.

9 **Q. Could you explain what challenges and issues you are referring to?**

10 A. Yes. Until last year, Piedmont's gas cost accounting function was supervised
11 and directed under Piedmont's accounting department with no direct report
12 responsibility to the personnel working in rates and regulatory affairs. This
13 function was historically performed by one primary person at the Company
14 with assistance from several other accountants utilizing a spreadsheet system
15 developed within the Company.

16 **Q. Did this system work?**

17 A. For many years this system did work, although it was not perfect and mistakes
18 were made in how individual gas costs were recorded and reported. Most of
19 these mistakes were detected either by the Company or the auditors from this
20 Commission or the ORS and from the North Carolina Public Staff in annual
21 prudence review proceedings conducted in South Carolina and North
22 Carolina. These mistakes were typically corrected in the normal course of

1 events either as part of the annual review proceedings or in the day-to-day
2 conduct of accounting at the Company.

3 **Q. Did these mistakes ever cause this Commission or the North Carolina**
4 **Utilities Commission to find that Piedmont had not properly accounted**
5 **for its gas costs in prior prudence review proceedings?**

6 A. No. While it is common for adjustments and corrections to be made to the
7 Company's gas costs in the Company's annual prudence reviews, those
8 reviews have always resulted in findings that Piedmont's gas costs, as
9 adjusted, were properly accounted for.

10 **Q. How did the Company become aware that its gas cost accounting function**
11 **was experiencing difficulties?**

12 A. Several years ago, the Company began experiencing difficulty in making
13 timely filings of its monthly deferred account reports. This difficulty was
14 noted by some of our regulators although no major issue was made about this
15 matter other than to request that the Company make greater efforts to file
16 these reports on a timely basis. At about this same time, Piedmont began
17 discussions with the North Carolina Public Staff where they expressed
18 concerns about several of the methodologies used by Piedmont in its gas cost
19 accounting calculations (which the Public Staff believed might be outdated or
20 overly-complicated), and about accounting errors that were reflected in some
21 of its monthly deferred account reports.

22 **Q. What did the Company do about these concerns?**

1 A. Piedmont took several steps to modify the manner in which Piedmont reported
2 its gas costs. These steps were designed to make the reporting process more
3 streamlined, to reformat the monthly reports, and to improve the timeliness of
4 the Company's reporting.

5 **Q. Did these steps resolve the concerns?**

6 A. No. In fact in retrospect, they seem to have made the problem worse as they
7 added an additional layer of complexity to the manner in which Piedmont's
8 gas costs were being reported.

9 **Q. What happened next?**

10 A. As part of the Company's restructuring efforts, beginning in the spring of
11 2006, Piedmont determined to reconfigure its gas cost accounting function,
12 hire new and additional gas cost accounting personnel, and move
13 responsibility for this function to its rates and regulatory affairs department.
14 This change was implemented in July of last year when responsibility was
15 turned over to a new manager of gas cost accounting. At about this same time,
16 Piedmont was going through our last annual prudence review proceeding
17 before this Commission in which the ORS identified problems with our
18 accounting, particularly related to LNG inventories and other discrete matters.
19 Shortly thereafter, Piedmont began what turned out to be a very extensive
20 audit by the North Carolina Public Staff in conjunction with its 2006 prudence
21 review. This audit lasted until the early spring of this year. As a result of the
22 issues raised during these two audits, it became apparent to Piedmont that the

1 challenges faced by its existing gas cost accounting system were much more
2 substantial than previously known. As the Company dealt with month end
3 closing during the winter months of 2006-2007, it also became apparent that
4 the newly assigned manager of gas cost accounting did not have enough
5 experience in gas cost accounting to effectively deal with the more complex
6 accounting issues that had become apparent through the ORS and Public Staff
7 audits.

8 **Q. What did the Company do at that point?**

9 A. We immediately began a search for and hired a new and more experienced
10 manager of gas cost accounting and accelerated our efforts to hire new
11 accounting analysts to assist him. We also retained an outside consultant to
12 assist us in redesigning and restructuring our gas cost accounting functions.
13 In this effort, our management indicated that addressing the issues with our
14 gas cost accounting function was the Company's highest priority.

15 **Q. What has happened since that time?**

16 A. We received a fairly critical 2006 Annual Prudence Review Order from the
17 North Carolina Utilities Commission earlier this year (based on the detailed
18 Public Staff audit described above) which was reflective of the accounting
19 difficulties we had previously experienced. In that order, we were directed to
20 take several corrective measures with regard to our gas cost accounting
21 practices and we are now in the process of completing those measures.
22 Internally, our new gas cost accounting personnel, aided by our outside

1 consultants, have worked extremely hard to address the issues with our gas
2 cost accounting and to ensure that we are properly accounting for and
3 reporting those gas costs going forward. And, of course, we have been
4 engaged in this review proceeding before this Commission.

5 **Q. How would you describe the audit process with the ORS in this**
6 **proceeding?**

7 A. It has been difficult for both the Company and ORS as they have engaged in a
8 very in-depth audit of our review period gas costs at the same time we have
9 been attempting to identify and correct issues with our existing system. Both
10 the Company and the ORS have worked very hard over the last few months to
11 ensure that the product of this proceeding is an accurate statement of our
12 review period costs and deferred account balances. We regret the necessity
13 for this level of effort in reviewing Piedmont's gas costs this year but given
14 the full scope of the issues identified with this functional area since our last
15 review before this Commission, we believe it is an extremely important matter
16 for both the Commission and the Company to ensure our procedures and
17 accounting are correct.

18 **Q. How does this relate to the Company's request to delay the hearing in this**
19 **docket?**

20 A. The issues discussed above were the reason for that request. In addition, the
21 Commission's approval of that request for an extension of the hearing date

1 greatly facilitated our ability to work through accounting issues with the ORS
2 and we appreciate the Commission's accommodation of that request.

3 **Q. Has Piedmont made progress in addressing the issues with its gas cost**
4 **accounting processes and systems?**

5 A. Yes. We have made great progress in assuring the accuracy of our accounting
6 and reporting for gas costs in the last few months, although we still have one or
7 two areas that require further evaluation (which is ongoing). We also have
8 detailed plans for a complete redesign and restructuring of gas cost accounting
9 systems and processes which will be executed, with our outside consultant's
10 assistance, over the next 12 months.

11 **Q. Do you have anything to add to your testimony?**

12 A. Not at this time.
13

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the attached *Direct Testimony of David R. Carpenter on Behalf of Piedmont Natural Gas Company, Inc.* is being served this date via UPS Overnight upon:

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And that a copy of the attached *Direct Testimony of David R. Carpenter on Behalf of Piedmont Natural Gas Company, Inc.* is being served this date via U.S. Mail upon:

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This the 11th day of October, 2007.


James H. Jeffries IV